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News from

TEXACO CANADA LIMITED

Public Affairs Department, 90 Wynford Drive, Don Mills, Ont. M3C 1K5 (416) 443-5743

Toronto, May 23 - - Shareholders of Texaco Canada Limited (TexCan) voted today to approve the amalgamation of the company with Texaco Exploration Canada Ltd. (TexEx) to form a single Canadian company. The amalgamation will become effective upon the issuance of letters patent for the merged company, expected to be on June 1st.

The company will be headquartered in TexCan's present offices in Don Mills, Ontario.

Today's voting took place at the Annual and Special General Meetings of TexCan common and preferred shareholders, held at the Inn on the Park, in Don Mills, Ontario.

Another special general meeting of shareholders of the amalgamated company is expected to be held in June to consider a proposal to continue the company under the Canada Business Corporations Act and, at the same time, change the corporate name to Texaco Canada Inc., effective July 1, 1978.

R. W. Sparks, President and Chief Executive Officer of TexCan, told the company's shareholders prior to today's vote that it was the unanimous recommendation of the Board of Directors and the management of TexCan that the amalgamation agreement would be in the best interests of the company

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and of its shareholders.

He said that "The proposal for amalgamation was received by TexCan from TexEx on February 16. The Board of Directors of Texaco Canada has studied the proposal and its implications to this company very carefully. Before voting their approval on March 30, our Directors received a report from a special Committee of the Board appointed to study the proposal, consisting of Directors not otherwise related to TexCan or TexInc.

"The Board also studied the conclusions of the company's investment consultants, Wood Gundy Limited. The proposal has been favourably voted on by the boards of both TexCan and TexEx."

Fourteen nominees for the Board of Directors of TexCan were re-elected today, and two new Directors - - James E. Brazell and F. Augustus Seamans, both of New York - - were also elected. John I. Mingay, a former President and Chief Executive Officer of Texaco Canada, did not stand for re-election.

Texaco Inc. of New York, which owned 100% of TexEx and approximately 68.2% of the common shares of TexCan, will own approximately 89.7% of the common stock of the new company.

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and of its shareholders.

He said that "The proposal for amalgamation was received by Traders from [illegible] on February 16. The Board of Directors of Traders Canada has studied the proposal and its implications to this company very carefully, before voting their approval on March 20. The Directors received a report from a special Committee of the Board appointed to study the proposal, consisting of Directors not connected with [illegible], as well as [illegible].

The Board also studied the implications of the company's investment [illegible]. The proposal has been thoroughly [illegible] by the Boards of both Traders and [illegible].

Following adjournment of the Board of Directors meeting, [illegible], and the new Directors — [illegible] and W. [illegible], both of New York — were [illegible]. John [illegible], a former President and Chief Executive Officer of Traders Canada, did not stand for re-election.

[illegible] of New York, which owned 100% of [illegible] and approximately [illegible]% of the common shares of Traders, will own approximately [illegible]% of the common stock of the new company.

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and of its shareholders."

He said that "The proposal for amalgamation was received of [illegible] from [illegible] on February 14. The Board of Directors of [illegible] Canada has studied the proposal and its implications to that company very carefully. Before giving their approval on March 22, the directors received a report from a special Committee of the Board appointed to study the proposal, consisting of directors not otherwise related to [illegible] or [illegible].

"The Board also studied the conclusions of the company's investment consultants, Wood Gundy Limited. The proposal has been [illegible] voted on by the Boards of both [illegible] and [illegible]."

Fourteen nominees for the Board of Directors of [illegible] were re-elected today, and two new Directors -- [illegible] and T. Augustus [illegible], both of New York -- were also elected. John [illegible], a former President and Chief Executive Officer of [illegible] Canada, did not stand for re-election.

[illegible] Inc., of New York, which owns 100% of [illegible] and approximately [illegible]% of the common shares of [illegible], will own approximately [illegible]% of the common shares of the new company.

May [illegible], 1978

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TORONTO, May 23 - R. W. Sparks, President and Chief Executive Officer of Texaco Canada Limited, today urged that consideration be given to two measures which would help improve Canada's increasingly unfavourable position in its balance of payments.

They are:

1. To sharply increase short-term exports of natural gas, which is surplus to Canadian needs, from western Canada to the United States West Coast and Midwest, with the proviso that such gas could be repaid in kind if Canada's supplies run low.
2. To materially increase the flow of western Canadian crude oil to the Montreal area refineries for consumption in Eastern Canadian markets.

Speaking at Texaco Canada's Annual Meeting of Shareholders, Mr. Sparks said that the export of surplus gas would be less disruptive and costly than "Force-Feeding" Western Canadian natural gas into Eastern Canadian markets.

The additional consumption of Canadian crude oil in Eastern Canada would result in increased production in Western Canada, Mr. Sparks said "Thus it would generate more of the funds necessary to conduct the search for and development of new oil and gas reserves. In addition, this action would improve Canada's increasingly unfavourable balance of payments position by reducing imports of off-shore oil into Eastern Canada.

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"Such increased movement of domestic crude to Montreal is feasible, considering that Canada already has a large shut-in crude production capacity."

FACILITIES IN PLACE

Not only is oil less costly to the eastern consumer, he said, the additional crude could be moved almost immediately (by increasing the pumping capacity) through existing oil pipeline systems at little extra cost, compared with the enormous cost and the time lag that would be involved in constructing a natural gas pipe line and the necessary distribution facilities.

Commenting on a suggestion that a natural gas pipeline might be constructed from Montreal to the east coast, Mr. Sparks declared: "the disadvantages inherent in such a so-called 'solution' would outweigh the advantages. Natural gas cannot compete in price with heavy fuel or burning oils in Quebec or the Atlantic region under present marketing conditions.

"As natural gas prices rise to parity with crude oil, this disadvantage will increase. Construction costs for new or expanded transmission and distribution facilities would result in even wider cost discrepancies. Furthermore, the "force-feeding" of natural gas would result in severe and costly disruptions to the existing refining and product distribution system in eastern Canada. It would create an additional financial burden to be borne by the consumer and taxpayer - - at a time when inflationary pressures remain high."

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INDUSTRY OUTLOOK

Turning to the outlook for the petroleum industry, Mr. Sparks stated: "We expect that production of liquid hydrocarbons in Canada in 1978 will decline slightly from the 1977 level to about 1,600,000 barrels daily. This reflects a further decrease in exports of those raw materials to markets in the United States. Domestic demand for petroleum products, however, should increase by about 3½% to a level of about 1,870,000 barrels daily. Sales of natural gas to domestic and export markets should be approximately 6.6 billion cubic feet daily, about the same as in 1977.

"We also expect in 1978 a continuance of the high level of exploration which highlighted petroleum activity in 1977, when a number of important oil and gas discoveries were made in Alberta. Although these are in the early stages of development, it can be reasonably assumed that they will have a positive effect on Canada's reserve position and productive capacity.

"These discoveries, combined with a more moderate growth in energy consumption, have resulted in an improvement in Canada's petroleum supply outlook.

"Meeting Canada's longer-term energy requirements will necessitate an all-out effort by the petroleum industry to find and develop additional supplies of oil and gas. Such an effort by the industry will, in turn, require federal and provincial government policies that are realistic and permit an adequate return on investment.

"Bearing in mind that the essential goal of energy policy must be to ensure that Canadians are provided with adequate and reasonably priced energy on an ongoing basis, there is an overriding need for a shift away from regulations and coercion and towards greater economic incentives.

"One of the most urgent current issues that must be dealt with is finding markets for surplus Western Canadian natural gas, without causing severe and costly disruption of refinery balances in Eastern Canada and creating still more idle capacity."

TEXACO CANADA OPERATIONS

Mr. Sparks said that most of the three-fold increase in Texaco Canada's exploration and production expenditures in 1977 compared with 1976, was for exploration, drilling and further land acquisitions in the Elmworth and West Pembina areas of Alberta where unique opportunities became apparent.

"The company's exploratory drilling results have been quite encouraging in the Elmworth area where substantial gas reserves are indicated," Mr. Sparks said. "Additional drilling is planned during the balance of 1978 to further delineate reserves. The company recently entered into a contract with Trans-Canada Pipelines to sell substantially all of its share of this gas beginning in late 1979. The company's holdings in this general area, including Elmworth, total almost 167,000 net acres.

"Texaco Canada has a much smaller stake in West Pembina amounting to 4,300 net acres, principally from its 5%-10% interests in some 48,800 acres in this area. This acreage appears well-located in relation to recent oil discoveries, two of which haven been drilled on 5% interest lands. We are currently participating in four additional exploratory wells in this area."

FIRST QUARTER

As previously reported, Texaco Canada's net income during the first quarter of 1978 declined 33.4% to $6,370,000, or 65 cents a common share, from the first quarter of last year due to a combination of factors. Commenting on this earnings decline, Mr. Sparks said: "Heavy downward pressure on product prices prevented full recovery of higher crude oil and other costs. The effects of comparatively milder weather conditions on heating oil sales, coincident with moderating consumer demand, resulted in decreased refining and marketing operations. Production of crude oil and natural gas liquids declined as a result of further reductions in exports to United States markets. Greater borrowing costs to finance the new Nanticoke refinery in Ontario and higher-cost inventories also had an adverse effect on income.

"The substantial excess in refining capacity in central and eastern Canada, which is one of the root causes of weak

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prices, has resulted from government-imposed trade barriers and moderating growth in demand.

"It is to be hoped that both the Canadian and U.S. governments will recognize the value to both countries of rational use of this spare capacity. Canada could and should obtain the value-added benefits of processing crude oil for those U.S. markets where consumer cost benefits are evident."

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